

**EMMETSBURG
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2004

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EMMETSBURG COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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BOARD OF EDUCATION

(Before September, 2002 Election)

Gary Kauffman	President	2003
Mary Cooper	Vice President	2004
David Kassel		2004
Jeff Morey		2005
Thomas Stillman		2005
Dean Gunderson		2003
Dr. Gary Rasmussen		2003

(After September, 2002 Election)

Jeff Morey	President	2005
Dean Gunderson	Vice President	2004
David Kassel		2004
Mary Cooper		2004
Dave Van Oosbree		2006
Thomas Stillman		2005
Karla Anderson		2006

SCHOOL OFFICIALS

Paul Tedesco	Superintendent
Patricia Swanson	District Secretary/ Treasurer

Independent Auditor's Report

To The Board of Education of the
Emmetsburg Community School District:

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of Emmetsburg Community School District, Conrad, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of Emmetsburg Community School District as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 9 to the financial statements, during the year ended June 30, 2004, Emmetsburg Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our reports dated August 27, 2004 on our consideration of Emmetsburg Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 11 and 32 through 34 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Emmetsburg Community School District's basic financial statements. We previously audited in accordance with the standards referred to in the second paragraph of this report. The financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BRUCE D. FRINK
Certified Public Accountant

August 27, 2004

EMMETSBURG COMMUNITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Emmetsburg Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$5,778,457 in fiscal 2003 to \$6,063,390 in fiscal 2004, while General Fund expenditures decreased from \$5,908,206 in fiscal year 2003 to \$5,970,063 in fiscal 2004.
- The increase in expenses is due to normal increases in salary and employee benefits as well as increased grant activity.
- State revenues decreased 3% from fiscal 2003 to fiscal 2004. This is a result of a mid-year cut in state funding. General Fund property tax revenues increased 5% in the fiscal year primarily from the increase in Federal grant activity.
- The General Fund balance increased over \$90,000 to finish the year with a positive balance.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: management's discussion and analysis (this section), the general purpose financial statements and required supplementary information.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Emmetsburg Community School District

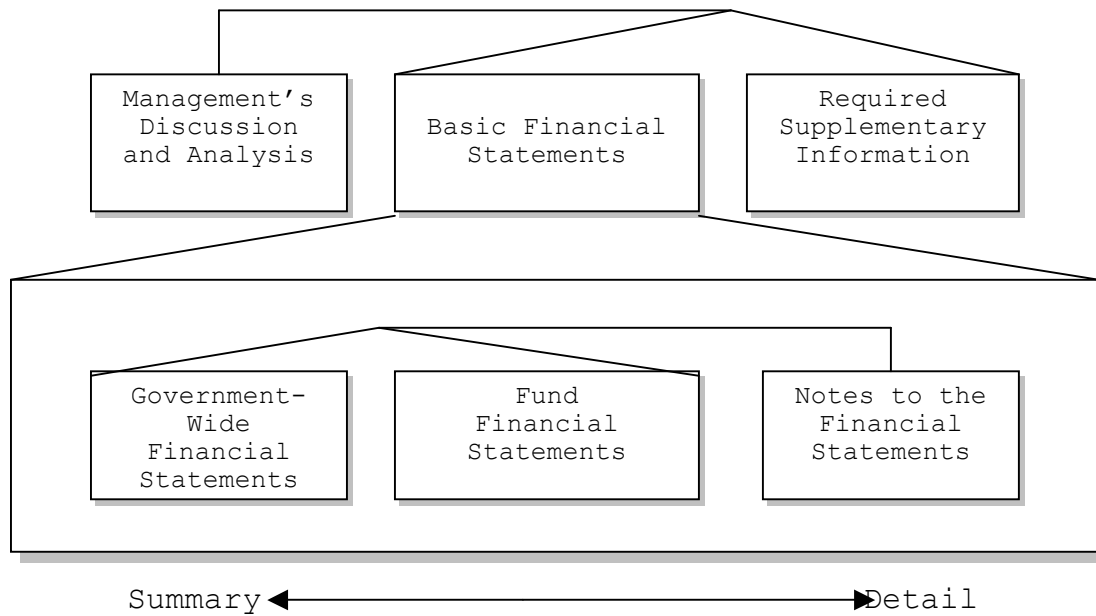


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2

Major Features of the Government-Wide and Fund Financial Statements

	Government-Wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district	The activities of the district that are not proprietary, such as special education and building maintenance	Activities the district operates similar to private businesses, such as food service	Instances in which the district administers resources on behalf of someone else
Required financial statements	. Statement of net assets . Statement of activities	. Balance sheet . Statement of revenues, expenditures, and changes in fund balances	. Statement of net assets . Statement of revenues, expenses and changes in net assets . Statement of cash flows	. Statement of fiduciary net assets . Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The Government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the Government-wide financial statements, the District's activities are divided into two categories:

- **Governmental activities:** Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid, finance most of these activities.
- **Business-type activities:** The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) **Governmental funds:** Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, and Debt Service Fund. Most of the District's basic services are included here, such as regular education, special education, building and grounds maintenance, transportation, and administration. Most of these activities are funded with property taxes and state aid finance.

- 2) **Proprietary funds:** Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Agency Funds.

- Agency Fund - The District accounts for the flex benefit program in this fund.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2004 compared to June 30, 2003.

Figure A-3
Condensed Statement of Net Assets
(expressed in thousands)

	Governmental		Business-type		Total		Percentage
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2004	2003	2004	2003	2004	2003	2003-2004
	\$	\$	\$	\$	\$	\$	
Current assets	4,537	4,272	18	25	4,555	4,297	6.00%
Capital assets	2,081	2,165	8	8	2,089	2,173	-3.87%
Total assets	6,618	6,437	26	33	6,644	6,470	2.69%
Current liabilities	4,050	3,868	-	-	4,050	3,868	4.71%
Non-current liabilities	415	577	-	-	415	577	-28.08%
Total liabilities	4,465	4,445	-	-	4,465	4,445	0.45%
Net Assets							
Invested in capital assets, net of related debt	1,706	1,665	8	8	1,714	1,673	2.45%
Restricted	335	319			335	319	5.02%
Unrestricted	112	8	18	25	130	33	293.94%
Total net assets	2,153	1,992	26	33	2,179	2,025	7.60%

Fiscal year 2003-2004 marks the initial District implementation of the GASB-34 financial reporting model. As a result, complete prior year comparisons are not available but will be provided in all subsequent years.

Figure A-4 shows the changes in net assets for the year ended June 30, 2004.

Figure A-4 Change in Net Assets (expressed in thousands)			
	Governmental Activities	Business-type Activities	Total School District
	\$	\$	\$
Revenues:			
Program revenues:			
Charges for service and sales	469	184	653
Operating grants, contributions and restricted interest	1,101	125	1,226
General revenues:			
Property tax	2,514	-	2,514
Income surtax	271	-	271
Unrestricted state grants	2,355	-	2,355
Unrestricted investment earnings	9	-	9
Other	41	-	41
Total revenues	<u>6,760</u>	<u>309</u>	<u>7,069</u>
Program expenses:			
Governmental activities:			
Instruction	4,163	-	4,163
Support Services	1,957	-	1,957
Non-instructional programs	-	316	316
Other expenses	555	-	555
Total expenses	<u>6,675</u>	<u>316</u>	<u>6,991</u>
Change in net assets	<u>85</u>	<u>(7)</u>	<u>78</u>

Property tax and unrestricted state grants account for 69% of the total revenue. The District's expenses primarily related to instruction and support services, which account for 88% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$6,723,759 and expenses were \$6,753,926.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5		
Total and Net Cost of Governmental Activities		
(expressed in thousands)		
	Total Cost of Services	Net Cost of Services
	\$	\$
Instruction	4,163	2,872
Support Services	1,957	1,915
Other expenses	<u>555</u>	<u>319</u>
Totals	<u>6,675</u>	<u>5,106</u>

- The cost financed by users of the District's programs was \$468,647.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$882,010.
- The net cost of governmental activities was financed with \$2,514,469 in property tax, \$2,355,394 in state foundation aid, and \$8,567 in interest income.

Proprietary-Type Funds

Revenues for the District's School Nutrition Fund were \$308,623 and expenses were \$315,518. The revenues include charges for services, contributions, and federal and state reimbursements.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The Emmetsburg Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the fiscal year, its governmental funds reported a combined fund balance of \$2,153,403, a 4% increase over last year's ending fund balance of \$2,068,799.

Governmental Fund Highlights

Several factors contributed to the small increase of the fund balance in the District's governmental funds. Some of these factors were unexpected; some were deliberately planned.

- The District received nearly \$100,000 more in Federal grant activity during the year.
- The District received \$36,000 from the sale of real property.
- There was a decrease in payroll and related expenses. Over 70% of the budget is payroll related.

Proprietary Fund Highlights

School Nutrition Fund net assets decreased approximately \$7,000 in Fiscal 2004 primarily due to increased food costs without a corresponding increase in revenues.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures.

Expenses for the year exceeded the amounts budgeted in several function areas, however, the budget as a whole was not exceeded. This is a result of changing needs during the year.

CAPITAL ASSETS

The District has invested more than \$5 million by the end of fiscal year 2004 in a broad range of capital assets, including school buildings, athletic facilities, kitchen, computers and audio-visual equipment, maintenance equipment, school buses and other vehicles, library holdings, and textbooks. The District made improvements and updated equipment at all facilities during the year. Total depreciation expenses for the year exceeded \$83,000.

Long-Term Debt

The District had \$375,000 in capital loan notes outstanding. This represents a decrease of \$125,000 from the previous year. The principal and interest on the bonds will be paid in full by June 1, 2007. The District makes principal and interest payments annually on these loans using property tax dollars obtained through the Physical Plant and Equipment Levy.

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- To offset the impact of declining enrollment, the State has provided a budget guarantee provision for districts. This budget guarantee provision is being phased out over a 10 year period. The District was on budget guarantee for Fiscal Year 2004 and will continue to be on budget guarantee for several years to come. Due to previous and continued declining enrollment, the amount of this reduction due to the phase out of the budget guarantee will likely grow over the next several years.
- The District will need to monitor payroll expenses as they account for the vast majority of the budget.
- Alternative sources must be found due to funding inconsistencies on the parts of the federal and state governments.
- The District will continue to be required to comply with unfunded and under funded mandates from the federal and state governments such as the Federal No Child Left Behind Act and the state Student Achievement and Teacher Quality Initiative. This will require the District to find ways to provide services in the areas of assessment and professional development, which will divert funds from other student service areas.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Patricia Swanson, District Business Manager, Emmetsburg Community School District, 205 King Street, Emmetsburg, IA 50536.

Basic Financial Statements

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2004

	Governmental Activities	Business-Type Activities	Total
	\$	\$	\$
Assets			
Cash and pooled investments	446,944	6,370	453,314
ISCAP investments	1,011,869	-	1,011,869
Receivables:			
Property tax:			
Current year	34,931	-	34,931
Succeeding year	2,723,022	-	2,723,022
Income surtax	278,571	-	278,571
Due from other governments	31,992	-	31,992
Other receivables	7,965	564	8,529
ISCAP accrued interest	1,643	-	1,643
Inventories	-	11,504	11,504
Capital assets, net of accumulated depreciation	2,081,102	8,198	2,089,300
Total assets	6,618,039	26,636	6,644,675
Liabilities			
Accounts payable	39,543	165	39,708
ISCAP warrants payable	1,006,000	-	1,006,000
ISCAP accrued interest payable	2,492	-	2,492
Deferred revenue:			
Succeeding year property tax	2,723,022	-	2,723,022
Succeeding year income surtax	278,571	-	278,571
Long-term liabilities:			
Portion due within one year:			
Early retirement payable	40,008	-	40,008
Capital loan notes payable	125,000	-	125,000
Portion due after one year:			
Capital loan notes payable	250,000	-	250,000
Total liabilities	4,464,636	165	4,464,801
Net assets			
Invested in capital assets, net of related debt	1,706,102	8,198	1,714,300
Restricted for:			
Management levy	26,309	-	26,309
Physical plant and equipment levy	309,108	-	309,108
Unrestricted	111,884	18,273	130,157
Total net assets	2,153,403	26,471	2,179,874

See notes to financial statements.

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

	Program Revenues					Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
	\$	\$	\$	\$	\$	\$
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	2,478,356	163,634	280,287	(2,034,435)	-	(2,034,435)
Special instruction	1,108,603	305,013	333,951	(469,639)	-	(469,639)
Other instruction	575,635	-	207,663	(367,972)	-	(367,972)
	<u>4,162,594</u>	<u>468,647</u>	<u>821,901</u>	<u>(2,872,046)</u>	<u>-</u>	<u>(2,872,046)</u>
Support services:						
Student services	280,416	-	3,398	(277,018)	-	(277,018)
Instructional staff services	135,024	-	-	(135,024)	-	(135,024)
Administration services	704,940	-	-	(704,940)	-	(704,940)
Operation and maintenance of plant services	643,898	-	17,487	(626,411)	-	(626,411)
Transportation services	193,044	-	21,409	(171,635)	-	(171,635)
	<u>1,957,322</u>	<u>-</u>	<u>42,294</u>	<u>(1,915,028)</u>	<u>-</u>	<u>(1,915,028)</u>
Other expenditures:						
AEA flowthrough	236,675	-	236,675	-	-	-
Interest on long-term debt	16,742	-	-	(16,742)	-	(16,742)
Facilities acquisition and construction	301,822	-	-	(301,822)	-	(301,822)
	<u>555,239</u>	<u>-</u>	<u>236,675</u>	<u>(318,564)</u>	<u>-</u>	<u>(318,564)</u>
Total governmental activities	<u>6,675,155</u>	<u>468,647</u>	<u>1,100,870</u>	<u>(5,105,638)</u>	<u>-</u>	<u>(5,105,638)</u>

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

	Program Revenues				
		Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	Total
Expenses	Charges for Service				
\$	\$	\$	\$	\$	\$
Business-Type activities:					
Non-instructional programs:					
Nutrition services	315,518	183,728	124,895	-	(6,895)
					(6,895)
Total	6,990,673	652,375	1,225,765	(5,105,638)	(6,895)
					(5,112,533)
General revenues:					
Property tax levied for:					
General purposes			2,178,485	-	2,178,485
Management			99,969	-	99,969
Capital outlay			236,010	-	236,010
Income surtax					
General purposes			159,534	-	159,534
Capital outlay			110,862	-	110,862
Unrestricted state grants			2,355,394	-	2,355,394
Unrestricted investment earnings			8,567	-	8,567
Other			41,421	-	41,421
Total general revenue			5,190,242	-	5,190,242
Change in net assets			84,604	(6,895)	77,709
Net assets beginning of year, as restated (note 9)			2,068,799	33,366	2,102,165
Net assets end of year			2,153,403	26,471	2,179,874

See notes to financial statements.

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Balance Sheet

Governmental Funds

June 30, 2004

	General	Physical Plant and Equipment Levy	Nonmajor Special Revenue	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	4,121	307,052	135,771	446,944
ISCAP investments	1,011,869	-	-	1,011,869
Receivables:				
Property tax:				
Current year	30,304	3,238	1,389	34,931
Succeeding year	2,480,026	142,996	100,000	2,723,022
Income surtax	162,500	116,071	-	278,571
Due from other governments	31,992	-	-	31,992
Other receivables	7,965	-	-	7,965
ISCAP accrued interest	1,643	-	-	1,643
Total assets	<u>3,730,420</u>	<u>569,357</u>	<u>237,160</u>	<u>4,536,937</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	17,434	1,182	20,927	39,543
ISCAP warrants payable	1,006,000	-	-	1,006,000
ISCAP accrued interest payable	2,492	-	-	2,492
Deferred revenue:				
Succeeding year property tax	2,480,026	142,996	100,000	2,723,022
Succeeding year income surtax	162,500	116,071	-	278,571
Total liabilities	<u>3,668,452</u>	<u>260,249</u>	<u>120,927</u>	<u>4,049,628</u>
Fund balances:				
Unreserved	61,968	309,108	116,233	487,309
Total fund balances	<u>61,968</u>	<u>309,108</u>	<u>116,233</u>	<u>487,309</u>
Total liabilities and fund balances	<u>3,730,420</u>	<u>569,357</u>	<u>237,160</u>	<u>4,536,937</u>

See notes to financial statements.

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2004

Total fund balances of governmental funds (Exhibit C)	\$ 487,309
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	2,081,102
Long-term liabilities, including notes payable and early retirement payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(415,008)</u>
Net assets of governmental activities (Exhibit A)	<u><u>\$ 2,153,403</u></u>

See notes to financial statements.

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund Types

Year ended June 30, 2004

	General	Physical Plant and Equipment Levy	Debt Service	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	2,338,019	346,872	-	99,969	2,784,860
Tuition	407,700	-	-	-	407,700
Other	80,513	16,857	-	196,425	293,795
State sources	2,911,655	173	-	73	2,911,901
Federal sources	325,503	-	-	-	325,503
Total revenues	<u>6,063,390</u>	<u>363,902</u>	<u>-</u>	<u>296,467</u>	<u>6,723,759</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	2,441,960	-	-	74,053	2,516,013
Special instruction	1,108,603	-	-	-	1,108,603
Other instruction	390,673	-	-	184,962	575,635
	<u>3,941,236</u>	<u>-</u>	<u>-</u>	<u>259,015</u>	<u>4,200,251</u>
Support services:					
Student services	280,416	-	-	-	280,416
Instructional staff services	135,024	-	-	-	135,024
Administration services	704,940	-	-	-	704,940
Operation and maintenance of plant services	478,728	81,284	-	-	560,012
Transportation services	193,044	-	-	-	193,044
	<u>1,792,152</u>	<u>81,284</u>	<u>-</u>	<u>-</u>	<u>1,873,436</u>
Other expenditures:					
AEA flowthrough	236,675	-	-	-	236,675
Long-term debt:					
Principal	-	-	125,000	-	125,000
Interest	-	-	16,742	-	16,742
Facilities acquisition and construction	-	214,126	-	87,696	301,822
	<u>236,675</u>	<u>214,126</u>	<u>141,742</u>	<u>87,696</u>	<u>680,239</u>
Total expenditures	<u>5,970,063</u>	<u>295,410</u>	<u>141,742</u>	<u>346,711</u>	<u>6,753,926</u>

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund Types

Year ended June 30, 2004

	General	Physical Plant and Equipment Levy	Debt Service	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$
Excess (Deficiency) of revenues over (under) expenditures	<u>93,327</u>	<u>68,492</u>	<u>(141,742)</u>	<u>(50,244)</u>	<u>(30,167)</u>
Other financing sources (uses):					
Sale of real property		36,000	-	-	36,000
Operating transfers in	-	-	141,742	-	141,742
Operating transfers out	<u>-</u>	<u>(141,742)</u>	<u>-</u>	<u>-</u>	<u>(141,742)</u>
	<u>-</u>	<u>(105,742)</u>	<u>141,742</u>	<u>-</u>	<u>36,000</u>
Excess (deficiency) of revenues over (under) expenditures and other financing uses	93,327	(37,250)	-	(50,244)	5,833
Fund balances beginning of year, as restated (note 9)	<u>(31,359)</u>	<u>346,358</u>	<u>-</u>	<u>166,477</u>	<u>481,476</u>
Fund balances end of year	<u><u>61,968</u></u>	<u><u>309,108</u></u>	<u><u>-</u></u>	<u><u>116,233</u></u>	<u><u>487,309</u></u>

See notes to financial statements.

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2004

Net change in fund balances - total governmental funds (Exhibit E)	\$ 5,833
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:	
Depreciation expense	(83,886)
Early retirement expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:	37,657
Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	<u>125,000</u>
Change in net assets of governmental activities (Exhibit B)	<u><u>\$ 84,604</u></u>

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets

Proprietary Fund

Year ended June 30, 2004

	School Nutrition
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for services	<u>183,728</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	116,963
Benefits	32,484
Supplies	751
Property	164,814
Depreciation	<u>506</u>
Total operating expenses	<u>315,518</u>
Operating (loss)	<u>(131,790)</u>
Non-operating revenues:	
State sources	4,283
Federal sources	120,494
Interest income	<u>118</u>
	<u>124,895</u>
Changes in net assets	(6,895)
Net assets beginning of year	<u>33,366</u>
Net assets end of year	<u><u>26,471</u></u>

See notes to financial statements.

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows

Proprietary Fund

Year ended June 30, 2004

	School Nutrition
	\$
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	183,184
Cash payments to employees for services	(149,447)
Cash payments to suppliers for goods or services	(141,826)
Net cash (used in) operating activities	<u>(108,089)</u>
Cash flows from non-capital financing activities:	
State grants received	4,283
Federal grants received	<u>100,588</u>
Net cash provided by non-capital financing activities	<u>104,871</u>
Cash flows from investing activities:	
Interest on investments	<u>118</u>
Net (decrease) in cash and cash equivalents	(3,100)
Cash and cash equivalents beginning of year	<u>9,470</u>
Cash and cash equivalents end of year	<u><u>6,370</u></u>
Reconciliation of operating income (loss) to net cash used in operating activities:	
Operating (loss)	(131,790)
Adjustments to reconcile operating profit (loss) to net cash provided by (used in) operating activities:	
Depreciation	506
(Increase) in other receivables	(544)
Commodities used	19,906
Decrease in inventory	3,668
Increase in accounts payable	<u>165</u>
	<u><u>(108,089)</u></u>
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:	
Current assets:	
Cash	<u><u>6,370</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received federal commodities valued at \$19,906.

See notes to financial statements.

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2004

	Agency Fund
	<u>\$</u>
Assets	
Cash and pooled investments	<u>7,205</u>
Total assets	<u>7,205</u>
Liabilities	
Accounts payable	<u><u>7,205</u></u>

See notes to financial statements.

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

The Emmetsburg Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors summer recreational activities. The geographic area served includes the City of Emmetsburg, Iowa, and agricultural area in Palo Alto County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Emmetsburg Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Emmetsburg Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Palo Alto County Assessor Conference Board.

B. Basis of Presentation

Government-wide financial statements - The Statements of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Debt Service Fund is used to account for the payment of interest and principal on the District's long-term debt.

The Physical Plant and Equipment Levy is used to account for the purchase of equipment and the repairing, remodeling and construction of buildings and land improvements.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. the District's fiduciary funds include the following:

The Agency Fund is used to account for assets held by the District form administering its flex spending plan.

C. Measurement Focus and Basis of Accounting

The Government-wide financial statements and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected with 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financial sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds' principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sale and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statement of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in Governmental Funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2003.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa and grants from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and contributed value for government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the Government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Land	\$ 1,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	10,000
Other furniture and equipment	10,000

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the Government-wide financial statements. A liability for these amounts is reported in governmental funds only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2004.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the Government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. Expenditures in the Instruction, Support Services and Other Expenditures functions exceeded the amounts budgeted.

(2) Cash and Pooled Investments

The District's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2004.

(3) Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

	Balance Beginning of Year, as restated (note 9)	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>10,000</u>
Capital assets being depreciated:				
Buildings	4,404,381	-	125,000	4,279,381
Furniture and Equipment	<u>835,164</u>	<u>-</u>	<u>-</u>	<u>835,164</u>
Total capital assets being depreciated	<u>5,239,545</u>	<u>-</u>	<u>125,000</u>	<u>5,114,545</u>
Less accumulated depreciation for:				
Buildings	2,253,936	81,614	125,000	2,210,550
Furniture and Equipment	<u>830,621</u>	<u>2,272</u>	<u>-</u>	<u>832,893</u>
Total accumulated depreciation	<u>3,084,557</u>	<u>83,886</u>	<u>125,000</u>	<u>3,043,443</u>
Total capital assets being depreciated, net	<u>2,154,988</u>	<u>(83,886)</u>	<u>-</u>	<u>2,071,102</u>
Governmental activities, capital assets, net	<u>2,164,988</u>	<u>(83,886)</u>	<u>-</u>	<u>2,081,102</u>
Business type activities:				
Furniture and equipment	125,304	0	-	125,304
Less accumulated depreciation	<u>116,600</u>	<u>506</u>	<u>-</u>	<u>117,106</u>
Business type activities capital assets, net	<u>8,704</u>	<u>(506)</u>	<u>-</u>	<u>8,198</u>
Depreciation expense was charged to the following function:				
Governmental activities:				
Support services:				
Plant operation and maintenance				<u>83,886</u>
				<u>83,886</u>
Business Type activities				
Food service operations				<u>506</u>
				<u>506</u>

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards, administered by Wells Fargo Bank, and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each participating entity is based on a projection of cash flow needs during the semiannual period. Wells Fargo maintains ISCAP accounts for each participating entity and provides monthly statements regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the balance sheet. A summary of the District's participation in ISCAP as of June 30, 2004 is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investment</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>
2003-04A	6/20/03	6/18/04	\$ -	-	-	-
2003-04B	1/28/04	1/28/05	302,043	1,643	300,000	2,492
2004-05A	6/30/04	6/30/05	709,826	-	706,000	-
Total			<u>\$1,011,869</u>	<u>1,643</u>	<u>1,006,000</u>	<u>2,492</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP activity for the year ending June 30, 2004 was as follows:

<u>Series</u>	<u>Balance Beginning of Year</u>	<u>Advances Received</u>	<u>Advances Repaid</u>	<u>Balance End of Year</u>
2003-04A	\$ -	<u>430,000</u>	<u>430,000</u>	-

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

<u>Series</u>	<u>Interest Rates on Warrants</u>	<u>Interest Rates on Investments</u>
2003-04A	2.000%	1.050%
2003-04B	2.000%	1.310%
2004-05A	3.000%	2.463%

(5) Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2004 is as follows:

	<u>Capital Loan Notes</u>
Balance beginning of year	\$500,000
Additions	-
Reductions	<u>125,000</u>
Balance end of year	<u>\$375,000</u>

Capital Loan Notes Payable

Details of the District's June 30, 2004 Capital Loan Notes Payable are as follows:

<u>Year Ending June 30,</u>	<u>Interest Rates %</u>	<u>Interest \$</u>	<u>Principal \$</u>	<u>Total \$</u>
2005	2.25	9,813	125,000	134,813
2006	2.65	7,000	125,000	132,000
2007	2.95	<u>3,687</u>	<u>125,000</u>	<u>128,687</u>
Total		<u>20,500</u>	<u>375,000</u>	<u>395,500</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must have attained the age of 55 on or before June 1 of the year of retirement but not exceeded the age of 62 when the benefit is elected. For benefits to be payable, the licensed employee must have completed at least 15 years of full-time service in the district, the last 10 years of which must be continuous employment. The early retirement benefit for each eligible employee is equal to the difference between BA step 4 and the salary reflected from the employee's position on the salary schedule. The benefit (for those electing the cash payment option) shall be payable one-half ($\frac{1}{2}$) on September 15 and one-half ($\frac{1}{2}$) on January 15 following retirement. For those electing the insurance option, the insurance premiums will be paid until the funds are exhausted. Early retirement benefits paid during the year ended June 30, 2004 totaled \$37,657. The cost of early retirement payments expected to be liquidated currently is recorded as a long-term liability in the amount of \$40,008.

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$212,648, \$225,386, and \$229,385 respectively, equal to the required contributions for each year.

(7) Risk Management

Emmetsburg Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$235,690 for year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

(9) Accounting Change

Governmental Accounting Standards Board (GASB) Interpretation Number 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented during the year ended June 30, 2003. The interpretation modifies when compensated absence and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board (GASB) Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, Statement Number 37, Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments; Omnibus were implemented during the fiscal year ending June 30, 2004. The statements create new basic financial statements for reporting the District's financial activities. The financial statements now include District-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

Governmental Accounting Standards Board (GASB) Statement Number 38, Certain Financial Statement Note Disclosure, requires certain disclosures be made in the notes to the financial statements concurrent with the implementation of Statement Number 34.

The District-wide financial statements split the District's programs between business-type and governmental activities. The beginning net asset amount for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

	Fund			Total
	General	Physical Plant and Equipment Levy	Nonmajor Special Revenues	
Net assets, June 30, 2003, as previously reported	\$ (31,359)	346,358	88,812	403,811
GASB Interpretation 6 adjustments	<u>-</u>	<u>-</u>	<u>77,665</u>	<u>77,665</u>
Net assets, July 1, 2003, as restated for governmental funds	<u><u>\$ (31,359)</u></u>	<u><u>346,358</u></u>	<u><u>166,477</u></u>	481,476
GASB 34 adjustments:				
Capital assets, net of accumulated depreciation of \$3,084,557				2,164,988
Long-Term Liabilities:				
Early retirement payable			(77,665)	
Capital loan notes payable			<u>(500,000)</u>	<u>(577,665)</u>
Net assets, July 1, 2003, as restated				<u><u>\$2,068,799</u></u>

(10) Related Party Transactions

The District had \$128,813 of business transactions between the District and District officials during the year ending June 30, 2004. These are described in the Schedule of Findings on Page 43.

Required Supplementary Information

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2004

	Governmental Fund Types	Proprietary Fund Type	Total	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Actual	Actual	Actual	Original	Final	
	\$	\$	\$	\$	\$	\$
Receipts:						
Local sources	3,606,136	183,302	3,789,438	3,775,923	3,775,923	13,515
State sources	2,911,901	4,283	2,916,184	3,453,725	3,453,725	(537,541)
Federal sources	325,503	100,588	426,091	150,000	150,000	276,091
Total receipts	6,843,540	288,173	7,131,713	7,379,648	7,379,648	(247,935)
Disbursements:						
Instruction	4,172,689	-	4,172,689	4,167,889	4,167,889	(4,800)
Support services	1,873,436	-	1,873,436	1,821,000	1,821,000	(52,436)
Non-instructional programs	-	291,273	291,273	665,285	665,285	374,012
Other expenditures	799,696	-	799,696	764,853	764,853	(34,843)
Total disbursements	6,845,821	291,273	7,137,094	7,419,027	7,419,027	281,933
Excess (deficiency) of receipts over (under) disbursements	(2,281)	(3,100)	(5,381)	(39,379)	(39,379)	33,998
Other financing sources (uses)	36,000	-	36,000	-	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	33,719	(3,100)	30,619	(39,379)	(39,379)	33,998
Balance beginning of year	413,225	9,470	422,695	657,378	657,378	(234,683)
Balance end of year	446,944	6,370	453,314	617,999	617,999	(200,685)

See accompanying independent auditor's report.

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2004

	Governmental Fund Type		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	6,843,540	(21,213)	6,723,759
Expenditures	6,845,821	35,072	6,753,926
Net	(2,281)	(56,285)	(30,167)
Other financing sources (uses)	36,000	-	36,000
Beginning fund balances	413,225	68,251	481,476
Ending fund balances	<u>446,944</u>	<u>11,966</u>	<u>487,309</u>

	Proprietary Fund Type		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	288,173	20,450	308,623
Expenditures	291,273	24,245	315,518
Net	(3,100)	(3,795)	(6,895)
Beginning fund balances	9,470	23,896	33,366
Ending fund balances	<u>6,370</u>	<u>20,101</u>	<u>26,471</u>

See accompanying independent auditor's report.

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functions expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

Expenditures exceeded the amounts budgeted in the Instruction, Support Services and Other Expenditures functions.

Other Supplementary Information

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet

Nonmajor Special Revenue Funds

June 30, 2004

	Management	Student Activity	Total
	\$	\$	\$
Assets			
Cash and pooled investments	85,262	50,509	135,771
Property tax receivable:			
Current year	1,389	-	1,389
Succeeding year	100,000	-	100,000
Total assets	<u>186,651</u>	<u>50,509</u>	<u>237,160</u>
Liabilities and Fund Equity			
Liabilities:			
Accounts payable	20,334	593	20,927
Deferred revenue:			
Succeeding year property tax	100,000	-	100,000
	<u>120,334</u>	<u>593</u>	<u>120,927</u>
Fund equity:			
Unreserved, undesignated fund balance	66,317	49,916	116,233
	<u>66,317</u>	<u>49,916</u>	<u>116,233</u>
Total liabilities and fund equity	<u>186,651</u>	<u>50,509</u>	<u>237,160</u>

See accompanying independent auditor's report.

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances

Nonmajor Special Revenue Funds

Year ended June 30, 2004

	Management	Student Activity	Total
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	99,969	-	99,969
Other	384	196,041	196,425
State sources:	73	-	73
Total revenues	<u>100,426</u>	<u>196,041</u>	<u>296,467</u>
Expenditures:			
Instruction:			
Regular instruction	74,053	-	74,053
Co-curricular instruction	-	184,962	184,962
Support services:			
Plant operation and maintenance	87,696	-	87,696
Total expenditures	<u>161,749</u>	<u>184,962</u>	<u>346,711</u>
Excess (deficiency) of revenues over (under) expenditures	(61,323)	11,079	(50,244)
Fund balances beginning of year, as restated (note 9)	<u>127,640</u>	<u>38,837</u>	<u>166,477</u>
Balance end of year	<u><u>66,317</u></u>	<u><u>49,916</u></u>	<u><u>116,233</u></u>

See accompanying independent auditor's report.

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Funds, Student Activity Accounts

Year ended June 30, 2004

Account	Balance Beginning of Year	Interfund Transfers	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$	\$
Activity Tickets	90	(12,607)	12,543	-	26
Rental Fees	46	(2,500)	3,236	682	100
V Show Choir Rental	1,273	-	2,068	457	2,884
JV Show Choir Rental	2,092	-	1,068	116	3,044
Concert Choir Uniform Rental	151	-	703	486	368
Gifts and Donations	2,135	-	2,073	1,673	2,535
Interest Earned	2,533	(60)	700	2,361	812
Elementary Art Fair	266	-	3,543	3,543	266
Jr Parents Prom Money	-	2,298	4,884	7,182	-
Tournaments	(267)	267	29,963	29,963	-
Middle School Music	-	299	900	1,199	-
HS Vocal Music	(1,098)	(858)	6,274	4,218	100
HS Instrumental Music	-	749	1,738	2,487	-
Swing Choir	(956)	1,309	2,227	2,580	-
Musical/Play	230	-	719	390	559
Pupil Insurance	327	(327)	2,020	2,020	-
FFA	1,326	-	20,476	20,370	1,432
Speech and Drama	-	833	-	833	-
Elementary Student Council	967	-	1,810	1,429	1,348
MS Student Council	1,417	-	1,323	1,284	1,456
HS Student Council	5,203	(1,149)	6,922	5,078	5,898
Concessions	117	-	1,535	1,142	510
Present Year Aerie	-	-	12,910	11,882	1,028
National Honor Society	-	1,149	1,568	2,716	1
Previous Classes	-	172	-	25	147
Class of 2005	62	(2,298)	12,459	10,070	153
Class of 2006	(42)	-	45	60	(57)
Class of 2003	(147)	-	65	85	(167)
Class of 2004	(195)	6	2,922	2,733	-
Cheerleaders	1,155	92	5,830	5,030	2,047
Peer Counseling	105	-	-	-	105
MS Boys Basketball	-	630	-	630	-
MS Girls Basketball	-	950	-	950	-
MS Football	-	985	-	985	-
MS Wrestling	-	220	-	220	-
MS Volleyball	-	533	-	533	-
MS Track	320	-	15	211	124
General Athletics	25	1,482	326	1,833	-
Volleyball Concessions	766	-	431	1,051	146
HS Boys Basketball	7,462	-	4,327	3,212	8,577
HS Football	1,556	(134)	15,459	10,982	5,899
HS Baseball	(2,870)	4,069	4,496	6,650	(955)

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Funds, Student Activity Accounts

Year ended June 30, 2004

Account	Balance Beginning of Year	Interfund Transfers	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$	\$
HS Wrestling	6,600	(134)	9,170	13,177	2,459
HS Boys Track	67	1,813	2,381	4,130	131
HS Boys Golf	-	1,018	28	1,046	-
HS Girls Basketball	8,102	(257)	4,597	4,957	7,485
HS Volleyball	(422)	46	2,692	2,316	-
HS Softball	(691)	438	4,269	4,972	(956)
HS Girls Track	-	617	3,702	4,139	180
HS Girls Golf	-	349	-	349	-
Journalism	395	-	-	-	395
Towels	575	-	1,624	525	1,674
Maier Fund	162	-	-	-	162
	<u>38,837</u>	<u>-</u>	<u>196,041</u>	<u>184,962</u>	<u>49,916</u>

See accompanying independent auditor's report.

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Comparison of Taxes and Intergovernmental Revenues

	Years ended June 30,			
	2004	2003	2002	2001
	\$	\$	\$	\$
Local sources:				
Local tax				
Property tax	2,511,589	2,361	2,238,816	2,149,744
Income surtaxes	270,396	3,543	93,125	92,355
Mobile home tax	2,875	7,182	1,652	1,871
	<u>2,784,860</u>	<u>13,086</u>	<u>2,333,593</u>	<u>2,243,970</u>
State sources:				
State foundation aid	2,353,806	-	2,472,922	2,772,831
Instructional support state aid	15,210	100,000	-	13,928
Shelter care/juvenile home aid	-	-	11,361	446
School improvement and technology funding	-	-	16,020	49,525
Educational Excellence Program:				
Phase I	20,736	-	21,859	22,143
Phase II	58,527	-	64,040	67,511
Phase III	-	66,317	36,596	37,614
AEA flow-through	236,675	66,317	257,548	270,976
Transportation aid non-public students	22,885	-	28,322	20,649
Textbook aid non-public students	1,337	186,651	926	809
Vocational education aid	10,285	-	12,803	15,737
Revenue in lieu of taxes - military credits	1,834	1,284	1,868	1,902
Lunch and breakfast program claims	4,283	4,633	4,839	5,259
Iowa Early Intervention Block Grant	41,605	-	34,450	27,543
Employability Skills	1,000	-	-	614
Non-public technology funds	-	-	3,971	4,283
Teacher mentoring	5,200	-	3,900	-
Evaluator training	-	-	-	-
Teacher compensation	60,674	-	54,165	-
	<u>2,834,057</u>	<u>425,202</u>	<u>3,025,590</u>	<u>3,311,770</u>
Federal sources:				
Title I Grants to Local Educational Agencies	88,261	-	125,610	135,313
Special Education - Basic Grants to States	17,775	-	30,903	-
Innovative Educational Program				
Strategies (Title VI)	4,204	4,413	4,553	4,506
Class Size Reduction	-	-	20,862	18,456
Improving Teacher Quality States Grants	41,264	-	-	-
Safe and Drug Free Schools and				
Communities - States Grants	3,123	6,323	3,050	3,301
National School Lunch and Breakfast Programs	120,494	99,223	100,269	89,337
Food Distribution	-	22,940	19,269	18,596
School Renovation, IDEA and Technology Grant	-	-	-	-
Tech Prep Grant	-	-	-	-
Star Schools Program	-	-	-	32,000
Iowa Demonstration Grant	-	133,000	-	25,000
Iowa Life Safety Demonstration Grant	-	10,085	-	-
Other Grants	12,290	-	7,871	3,886
	<u>287,411</u>	<u>275,984</u>	<u>312,387</u>	<u>330,395</u>
Total	<u>5,906,328</u>	<u>714,272</u>	<u>5,671,570</u>	<u>5,886,135</u>

See accompanying independent auditor's report.

**Independent Auditor's Report on Compliance and
on Internal Control over Financial Reporting**

To the Board of Education of the
Emmetsburg Community School District:

We have audited the financial statements of the Emmetsburg Community School District, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated August 27, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Emmetsburg Community School District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed immaterial instances of noncompliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the general purpose financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year matters have all been resolved except for Items 04-II-E & 04-II-J.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Emmetsburg Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and no to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Emmetsburg Community School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 04-I-A is a material weakness. Prior year reportable conditions have all been resolved except for item 04-I-A.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Emmetsburg Community School District and other parties to whom Emmetsburg Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Emmetsburg Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BRUCE D. FRINK
Certified Public Accountant

August 27, 2004

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part I: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

04-I-A SEGREGATION OF DUTIES

Comment - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the District's financial statements. We noted that one individual has custody of receipts and performs all record-keeping and reconciling functions for the office.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

Response - We will review procedures and investigate available alternatives.

Conclusion - Response acknowledged.

Part II: Other Findings Related to Required Statutory Reporting:

04-II-A Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.

04-II-B Certified Budget - Disbursements for the year ended June 30, 2004, exceeded the certified budget amounts in the Instruction, Support Services and Other Expenditures functions.

Recommendation - We recommend that the District monitor the four function areas to avoid exceeding the budgeted amounts. The budget should be amended if necessary.

Response - We will comply with the recommendation.

Conclusion - Response accepted.

04-II-C Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

04-II-D Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part II: Other Findings Related to Required Statutory Reporting:
(continued):

04-II-E Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Dave Van Oosbree Board Member	Repairs	\$ 1,072
Dan Cooper Builders Spouse of Board Member	West Elementary Addition, per bid	\$127,741

The transactions with Mr. Cooper do not appear to represent conflicts of interest since they were competitively bid in accordance with Chapter 279.7A of the Code of Iowa.

The transactions with Mr. Van Oosbree do not exceed the \$2,500 limit allowed by Iowa law.

Recommendation - We recommend that the District consult legal counsel regarding this matter.

Response - We will comply with this recommendation.

Conclusion - Response accepted.

04-II-F Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

04-II-G Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.

04-II-H Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

04-II-I Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

04-II-J Certified Enrollment - The number of basic students reported to the Iowa Department of Education on line 7 of the Certified Enrollment Certification form for September, 2003 was understated. The District's certified enrollment count on line 1 did not include one student who was enrolled as a resident student.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - We will contact the Department of Education and the Department of Management.

Conclusion - Response accepted.

